Ministry of Finance
Economic Planning Authority

Economic Plan

1974 – 1978

MINISTRY OF FINANCE

ECONOMIC PLANNING AUTHORITY

THE ECONOMIC PLAN, 1974 – 1978

Abstract and Summary

INTRODUCTION

The material in this summary has been gleaned from the Economic Plan for the years 1974 to 1978, prepared by the Economic Planning Authority, and at present under consideration by the Cabinet.

These extracts from the Plan have been prepared at the specific request of Mr. Pinhas Sapir, the Minister of Finance and Chairman of the Cabinet Committee for Economic Affairs, for the delegates to the Prime Minister's Third Economic Conference, 1973. As any abstract or summary, they can deal only with the general outlines of the plan, but it is hoped that they clearly reflect the basic philosophy and guidelines of the original.

Having been involved in the past with the Economic Conference and the resulting activities in Europe, it is a great pleasure for me to bring this summary before the delegates to the present Conference.

Simcha Landau,
Director,
The Economic Planning
Authority.

Jerusalem, May, 1973.

NOTE

Tables are taken from Chapter 1
of the original Hebrew version.
Sources of data are detailed therein.

All features are given at 1972 prices,
the rate for dollars being the
effective rate of exchange.

Data for 1973 is based upon the
estimates of the National Budget
for 1973/1974.

1) THE PLAN – GOALS AND ASSUMPTIONS.

a) GOALS

- Continuing economic growth under conditions of full employment;
- Absorbtion of some 325,000 immigrants, while bearing the burden of defense;
- Realization of social policies designed to raise, absolutely and relatively, the level of low-income groups within the framework of a moderate rise in the standard of living of all the population;
- Reduction, both absolutely and relatively, of the import surplus in the resources available to the economy;
- Geographic dispersal of the population and preservation of the quality of the environment in Israel.

b) ASSUMPTIONS

- Sixty-five thousand new immigrants each year, with native population growing by 3.3 per cent per annum;
- Continuing stability in the country's security:
- Present status of economic relationships between Israel and her neighbors to continue;
- Strengthening of relations with the European Economic Community;
- Average annual growth of 4.5 per cent in productivity;
- Preservation of the existing rate of private saving;
- Stability in the level of unilateral transfers in capital imports.

2) MAIN CHARACTERISTICS OF THE PLAN

In contradistinction to previous economic development plans for Israel, the outstanding feature of the present plan lies in the relative decline in the amount of resources that will be devoted to defense. This, combined with the growth in the economy over the period, will mean that resources will be freed for other purposes, exports, investments and public – non defense – expenditure.

Private consumption will be allowed to expand at a limited rate, with taxes being somewhat increased to prevent any undesirable increase in demand over the period. Given the available resources, attempts will be made to assist the lower income groups, so that their position will improve both absolutely and relatively. Such assistance will result from the additional resources that will become available to the government, and which will be directed towards the solution of many of Israel's social problems.

Funds will be utilized in order to improve the economic infrastructure; to finance housing for young couples; to provide for an extensive slum clearance program; to improve the level of education and health services, and to widen the scope and strengthen the effect of social security payments. In addition, there will be sufficient resources to tackle some of Israel's outstanding environmental problems; to finance the absorbtion of the expected immigration; to encourage investments and exports, and to begin to reduce the high level of negative government saving.

Efforts will be made to improve the productivity of labor, in order to keep the rising demand for workers in equilibrium with the limited supply. The high level of education of Israel's labor force in general, and in the scientific and technical fields in particular, represents a unique resource that will be more fully utilized over the period of the plan, especially by the expansion of research and development facilities in all fields.

By 1978, Israel will be considerably more involved in the international economy than at present. This involvement finds expression in the plan through three major developments – the expansion of exports, the import of capital and foreign investments and a closer relationship with the European Economic Community.

The gap between imports and exports – the "import surplus" – will decrease over the period of the plan, because of the very rapid rise forecast for exports, while imports will grow at a slower rate. The capital inflow from abroad is expected to continue. As a result the total external debt will increase, although at a diminishing rate.

The Israel economy will continue to integrate itself into the world economy by the reduction of import barriers, which will both allow a more efficient distribution with the agreements to be reached with the European Economic Community. Throughout the period of the plan attempts will be made to secure Israel more closely to the Community, in order to reap the benefits of association with this vast market.

In summary, the plan may be said to concentrate an improving the quality of life in Israel in all spheres as a result of, and concommitant with, rapid economic advance.

3) FACTS AND FORECASTS – THE OVERALL PICTURE

a) POPULATION – Some 65,000 new immigrants are expected to arrive in Israel in each year of the plan (although the economy could successfully absorb a much larger number). Together with the natural increase of the population, this will result in a total population of 3,874,000 in 1978 (590,000 non-Jews and 3,285,000 Jews), an annual average growth rate of 3.4 per cent over the period 1974-1978. The number of employed persons is expected to rise at the same rate.

b) RESOURCES AND THEIR USES – Total resources (Gross National Product plus the import surplus) will reach IL 71,100 million in 1978 growing at at an average annual rate of 7.2%. The Gross National Product will rise somewhat faster and imports more slowly (see Table 1). The distribution of these resources will differ from that in the recent past:

- While overall PUBLIC CONSUMPTION will rise at an annual rate of 3.5%, defence expenditure will remain static in absolute terms and decline relatively to 12% in 1978, as compared with 16% in 1973 and 20% in 1970 and 1971. By contrast, public civilian consumption will rise on the average by 9% a year, due chiefly to the growth in health, education and welfare expenditures.
- PRIVATE CONSUMPTION will rise by 6.6% annually between 1973 and 1978, or by 3.1% per capita per annum. Both these rates are somewhat lower than those of the recent past, but should still be sufficient for rapid economic growth.
- GROSS INVESTMENT will rise at a rate of 6.1% per annum, reaching IL 13.9 billion by 1978. Forecasts for investments in the various economic sectors are detailed in part 4 (page 8).
- In 1973 EXPORTS, at U.S. $2,615 million were equivalent to 66% of IMPORTS, a ratio which is expected to improve to 83% by 1978, because of the rapid growth (at an annual rate of 13.0%) of exports over the period – details in part 6 (page 14).

TABLE 1 – Resources and Use of Resources, 1971, 1972 and Forecast for 1973 and 1978

	MILLION IL 1972 PRICES				RATE OF GROWTH		ANNUAL AVERAGE RATE OF GROWTH
	1971	1972	1973	1978	1971 -1972	1972 -1973	1973 -1978
Total Resources	42180	45425	50325	71100	7.7	10.8	7.2
GNP	26670	29135	31645	46100	9.2	8.8	7.8
Imports*	15510	16290	18630	25000	5.0	14.4	6.1
Total Uses	42180	45425	50325	71100	7.7	10.8	7.2
Public Consumption	9355	9205	9520	11300	-1.5	3.4	3.5
(Defence)	(6490)	(6090)	(6200)	(6200)	(-6.2)	(1.8)	(-)
Private Consumption	15840	17200	19325	26700	8.6	12.5	6.6
Gross Investment	8075	8900	10335	13900	10.2	16.1	6.1
Exports*	8910	10120	11115	19200	13.6	9.8	11.5

* Imports and Exports include trade with the administered territories and are calculated in dollars according to the effective rate of exchange and at constant prices.

4) INVESTMENT 1974 – 1978

In 1978 GROSS INVESTMENT will total IL 13.9 billion, an increase of IL 3565 million over 1973. Investment in FIXED ASSETS will grow at a similar rate, reaching IL 13.3 billion in 1978, or IL 58.4 billion for the period as a whole of this total, IL 17.9 billion is intended for HOUSING (especially new immigrants, young couples and slum dwellers), with the remaining IL 40.5 billion being distributed among the various sectors of the economy.

TABLE 2 – GROSS INVESTMENT, 1971, 1972 and FORECAST for 1973 and 1978

	MILLION IL 1972 PRICES				RATE OF GROWTH		ANNUAL AVERAG RATE OF GROWTH
	1971	1972	1973	1978	1971 -1972	1972 -1973	1973 -1978
Total Gross Investment	8110	8900	10335	13900	9.7	16.1	6.1
Change in Stock	410	400	435	605	-2.4	8.8	6.8
Total Investment in fixed Assets	7700	8500	9900	23295	10.4	16.5	6.1
Housing	2480	3170	3410	3950	27.8	7.8	3.0
Investment In Sectors	5220	5335	6490	9345	2.2	12.2	7.6
Agriculture	304	330	340	460	8.6	3.0	6.2
Water	76	85	95	120	11.8	11.8	4.8
Industry	1210	1400	1600	2270	15.7	14.3	7.2
Electricity	135	165	195	200	22.2	18.2	0.5
Construction Equipment	181	315	350	450	74.0	11.1	5.2
Transport and Communications	1946	1500	2065	2750	-24.7	40.3	6.0
Trade and Services	1368	1540	1845	3095	15.1	17.8	8.9

About a quarter of the gross investment distributed among the sectors will be devoted to the advancement of INDUSTRY, in order to obtain the significant increases expected in output. Preference will be given to the industries producing for defence purposes, to the chemical, electronic, pharmaceutical and other industries employing sophisticated technology, so as to utilize Israel's comparative advantage in skilled labor.

Investments in the TRANSPORT NETWORK will total IL 12.4 billion, and will deepen and extend the capital infrastructure of the economy and the nation. Investments in urban and inter-urban roads will grow by about 20% per annum, reaching IL 575 million in 1978. Improvement in the system are a sine qua non for more efficient transportation, economic development and safer roads. Investments in ships and planes will be somewhat lower than in the recent past, totalling IL 2 billion over the period 1974 – 1978.

Gross investments in WELFARE SERVICES (education, health and welfare) will reach IL 5 billion over the period, with three-quarters of this sum being provided from government sources.

For the TOURIST INDUSTRY gross investment will total IL 1.1 billion over the period of the plan, with almost 80% of this sum being devoted to the construction, renovation and expansion of quality hotel facilities.

AGRICULTURE and WATER RESOURCES will have gross investments of IL 2,650 million over the period, an annual average rate of growth of 4.1%. Investments in the preservation of the ENVIRONMENT are expected to approach IL 1 billion in the period 1974 – 1978.

These investments will be financed to an increasing extent by domestic national saving, whose share in Gross Capital Formation is expected to double (reaching 58.3% in 1978) whilst increasing almost three-fold in absolute terms (from IL 2.8 billion in 1973 to IL 8.1 billion in 1978). Net imports of capital are expected to reach IL 6.7 billion in the five years of the plan. If the need arose it would be possible to increase this amount, but repayments of interest and principal make such a course unattractive – by 1972 Israel's external debt stood at $ 4 billion, which in per capita terms was already a world record, and is forecast to grow to $ 6.8 billion in 1978.

TABLE 3. CAPITAL IMPORTS, 1972 AND FORECAST 1973-1978

(million U.S. $)

	1972	1973	1974	1975	1976	1977	1978	TOTAL 1974–1978
1. Unilateral Transfers	945	895	915	760	750	700	700	3825
2. Long and Medium Term Loans	980	1030	975	1050	1100	1115	1050	5290
3. Repayment of Long and Medium Term Loans	450	420	450	575	640	670	755	3090
4. Net Investments	195	135	120	125	140	140	155	680
5. Net Change in Long and Medium Term Capital Movements (2-3)	530	610	525	475	460	445	295	2200
6. Net Capital Movements (4 + 5)	725	745	645	600	600	585	450	2880
7. Net Import of Capital	1670	1640	1560	1360	1350	1285	1150	6705

Fixed CAPITAL STOCK formation (excluding housing) will total IL 32.4 billion over 1974 – 1978, and its distribution among the various sectors will differ somewhat at the end of the plan from that expected at the start of 1974. The share of industry and construction equipment will rise from 24.2% to 25.1%. transport and communications from 26.2% to 27.4%, trade and services from 27.5% to 29.4%. The share of electricity will remain constant at 5.5%, while that of agriculture will fall sharply from 16.6% in 1974 to 12.6% in 1978.

5. EMPLOYMENT 1974 – 1978

Despite the growth in investments, a limiting factor in any attempt to increase output will be the number of employees and their efficient distribution. The most effective use of labor will depend upon the comparative advantage enjoyed by different sectors, and this in turn requires the lowering of tariff barriers (so that resources will shift to those areas that can compete internationally), and improving the mobility of labor.

Even with these steps, a demand for some 10,000 employees in excess of supply is expected by 1978. Employees from the administered territories, are expected to reach 60.000 in the final year of the plan, slightly in excess of the 1972 figure. A further problem will be the supply of suitably trained workers, particularly those with academic qualifications.

Of the additional 190,000 Israelis who will become employed persons during 1974 – 1978, about 60,000 will be absorbed by industry alone. By contrast, employment in agriculture is expected to remain unchanged, whilst employment in – especially – the social services will grow rapidly.

TABLE 4 – EMPLOYEES BY ECONOMIC BRANCH 1971, 1972 AND FORECAST FOR 1973 and 1978

	THOUSANDS				RATE OF GROWTH		ANNUAL AVERAGE RATE OF GROWTH
BRANCH	1971	1972	1973	1978	1971 -1972	1972 -1973	1973 -1978
TOTAL	1006	1058	1076	1296	5.2	3.6	3.4
Agriculture	85	84	81	77	1.2	-3.7	-1.0
Industry	243	255	267	318.5	4.9	4.7	3.6
Construction	88	99	106	111	12.5	7.0	0.9
Transport and Communications	76	80	84	98	5.3	5.0	3.1
Water and Electricity	11	9	10	11	-22.2	11.1	1.9
Trade, Food Services and Other	127	138	141	163	8.7	2.2	2.9
Financial and Business Services	57	61	63	76	7.0	3.3	3.8
Personal Services	74	76	78	90.5	2.7	2.6	3.0
Public Services	245	256	266	351	4.5	3.9	5.7

6) THE BALANCE OF PAYMENTS 1974 – 1978

The persistent imbalance in the Balance of Payments will continue to be the central problem of the economy over the period of the plan.

TABLE 5. – BALANCE OF PAYMENTS, 1971, 1972 AND FORECASTS FOR 1973 AND 1978

(Million U.S.$, Current Prices)

	1971	1972	1973	1978	Average Annual Rate of Growt 1973 – 1978
1. Import of Goods*	1726	1840	2250	3520	9.4
Export of Goods	900	1085	1215	2260	13.2
Import Surplus	826	755	1035	1260	4.0
2. Import of Services	1312	1375	1565	2080	5.9
Export of Services	889	1040	1220	2250	13.0
Import Surplus	423	335	345	-170	-
3. Import of Goods and Services	3038	3215	3815	5600	8.0
Export of Goods and Services	1789	2125	2435	4510	13.1
Import Surplus	1249	1090	1380	1090	-4.6
Export Surplus to Territories	46	15	20	85	33.6
TOTAL Import Surplus	1203	1075	1360	1005	-5.8
4. Net Capital Inflow	1515	1670	1640	1150	-6.9
Level of Debts at Years End	3400	4200	4600	6800	8.1
Balance	576	1070	1350	1940	7.5

*Including Oil From Sinai

The dependence on the import of capital, and the increasing burden of the external debt, will force upon the economy a drastic reduction in the Balance of Trade deficit — were present trends to continue, the deficit on current account could reach critical proportions.

The import surplus will be reduced chiefly by increasing exports, and to a certain extent by reducing the rate of increase of imports. The former will be dependent upon the profitability of exports and the planned rate of growth of the economy, while the latter will be accomplished by substituting locally produced goods for imports, although the liberalization and reduction of protective duties will make this process somewhat problematic during the period of the plan.

In 1978 IMPORTS will total $5.6 billion (excluding trade with the administered territories) compared with $ 3.8 billion expected in 1973. This is an annual growth rate of 8% at current prices, somewhat slower than that in the past, and less than the forecast growth in GNP and total resources.

TABLE 6. – IMPORT OF GOODS AND SERVICES 1971, 1972 AND FORECAST FOR 1973, 1978

	Million U.S.$ Current Prices				Average Annual Rate of Growth
	1971	1972	1973	1978	1973 – 1978
Import of Goods					
Consumer Goods	178	205	250	370	8.2
Production Imports*	1097	1235	1425	2450	11.4
Investment Goods	516	470	650	830	5.0
of which:					
ships and planes	(186)	(40)	(130)	(80)	
others	(330)	(430)	(520)	(750)	(7.6)
Import of Goods Gross	1791	1910	2325	3650	9.4
Import of Goods Net of Adjustments	1726	1840	2250	3520	9.4
Import of Services					
Transport	199	225	250	420	10.9
Capital	230	270	320	550	11.4
Government	601	560	610	510	-3.6
of which:					
Defence	(541)	(500)	(545)	(400)	(-6.0)
other	282	320	385	600	9.3
Import of Services	1312	1375	1565	2080	5.9
Total Import Goods and Services	3038	3215	3815	5600	8.0
Imports from the Territories	77	135	160	215	6.1
Total Imports Including Territories	3115	3350	3975	5815	7.9

* Includes Oil From Sinai

Total Exports will exceed $4.8 billion in 1978, compared with $2.4 billion in 1973 – an annual growth rate over the period of 13.1%. Whilst such a growth rate is feasable, its attainment will depend upon a number of factors – government policy for encouraging exports, restraint of domestic private consumption, the state of relations with the European Economic Community.

TABLE 7. – EXPORT OF GOODS AND SERVICES, 1971, 1972 AND FORECAST FOR 1973, 1978

	Million U.S. $ Current Prices				Average Annual Rate of Growth
	1971	1972	1973	1978	1973 – 1978
Export of Goods					
Industrial Exports	748	920	1045	2050	14.4
Diamonds	265	385	455	650	7.4
Other	483	535	590	1400	18.9
Agricultural Exports	155	160	170	220	5.2
Citrus	114	107	110	115	0.9
Other	41	53	60	105	11.8
Other Exports	16	30	30	40	5.9
Exports, Gross, Total	919	1110	1245	2310	13.2
Adjustments	19	25	30	50	
Exports, Net, Total	900	1085	1215	2260	13.2
Export of Services					
Transport	330	370	415	765	13.0
Tourism	178	220	280	450	10.0
Other	381	450	525	1035	14.5
Export of Services, Total	889	1040	1220	2250	13.0
Total Exports, Goods and Services	1789	2125	2435	4510	13.1
Exports to the Administered Areas	123	150	180	300	10.7
Total Exports, Including Areas	1912	2275	2615	4810	13.0

7) THE ECONOMY BY SECTOR 1974 – 1978

AGRICULTURE – With no change in the total area under cultivation, output is expected to rise by 5.2% annually over the period, reaching IL 3.8 billion in 1978, with exports rising by 5.8% a year and reaching $ 340 million by the end of the period.

INDUSTRY – Output to rise by 9.8% per anum, reaching IL 34.8 billion by 1978. Exports (excluding diamonds, which will rise by 5.7% a year over the period to $ 600 million) will reach $ 1.3 billion, at an annual growth rate of 16.7%, gross investment in industry will exceed IL 2.2 billion (an annual growth rate of 8.3% over the period), with 357 thousand employees in 1978, compared with 298 thousand in 1973.

ELECTRICITY – Electrical output will exceed 15.3 billion KWH in 1978, an annual growth over the period of 10.4%. Total investments in this branch will exceed IL 2.1 billion, with the single largest item (the Hadera power station) absorbing IL 600 million of this.

TRANSPORTATION AND COMMUNICATIONS – Total investments over the period 1974 – 1978 will approach IL 12.4 billion, with IL 2 billion being invested in ships and planes and IL 3.8 billion in vehicles. The postal and communications services will receive investments of IL 3.3 billion. Foreign earnings are expected to reach $ 765 million, at an annual growth rate of 13%.

CONSTRUCTION – Investments in fixed assets will total IL 32.9 billion over the period, with over half (IL 17.9 billion) being devoted to housing requirement – which represents the addition of some 252,000 apartments to existing stocks. The shortage of suitably trained manpower may tend to act as a constraint on the development of this branch. A major goal of the plan will be to provide by 1978, housing solutions to all those families living at present in overcrowded conditions – defined as three or more persons per room.

TOURISM – The number of tourists is expected to grow at an annual rate of almost 10%, reaching 1.4 million in 1978, with total income from tourism reaching $450 million in that year ($280 million expected in 1973). Investments in hotels are expected to reach IL 860 million over the period.

EDUCATION – National education expenditure will grow at an annual rate of 9.2%, exceeding IL 3.1 billion by 1978. The number of pupils – from kindergarten to university – will reach 1225 thousand in 1978, almost one-third of the total population.

HEALTH – Expenditure on health services will grow by 8.3% each year, exceeding IL 2 billion by 1978. The number of hospital beds per thousand residents will reach 7.24, compared with 6.98 in 1973, with a considerable expansion in the number of places available for the mentally sick.

WELFARE – Welfare expenditure will increase rapidly over the plan period, from IL 185 million in 1973 to IL 473 million in 1978, with a significant reduction in the proportion devoted to youth, and a rise (of some 300% over the period) in that devoted to the aged. The number eligible for income support and pension payments will increase at an annual rate close to 10%, one of the major factors being the implementation of the new National Unemployment Insurance Law.

ENVIRONMENT – Investments in environmental protection are expected to reach IL 1 billion over the period 1974 – 1978, with national programs for garbage and sewage disposal (about IL 500 million) and industrial pollution (about IL 400 million) the two major beneficiaries. Current expenditure on environmental protection is expected to run at 1.5% of total consumption over the period.